



Flood Insurance and Market

House Insurance Committee Interim Charge 1

Texas Senate Bill 442

In response to the passage of this bill, supported by APCIA, the industry has informed their policyholder base if the property policy purchased does not cover loss due to flood. Since the implementation of this legislation, for new or renewal policies with an effective date of January 1, 2020, there has been an increase in both the number of policies/premium in the National Flood Insurance Program (NFIP), as well as in the private market.

For example: In the NFIP from January through July (the latest data available) the number of policies in force countrywide has grown from 5,053,386 to 5,053,886 (45,000 new policies for 0.9% growth) while number of NFIP policies in force in Texas in has grown from 763,150 to 791,012, or approximately 3.65 percent over the same time period. This goes against the trend of a decreasing number of policies being purchased in all but a very few states (Michigan, North Dakota, and South Carolina in addition to Texas) in 2020.

On the private flood side, the growth has been significant, but still represents just a fraction of the properties insured against flood loss in Texas. Since 2015ⁱ, the Texas direct written premium for private flood insurance has grown from roughly \$11.271 million to \$49.03 million, approximately 435 percent over the 5-year period.ⁱⁱ

However, there is still more work to do as according to CoreLogicⁱⁱⁱ, nationally, more than 29 million properties (29,437,151), or 23 percent, are outside a designated Special Flood Hazard Area (SFHA) despite being at *High* or *Moderate* risk of flooding. In Texas, there are 3,292,082 properties, or 31 percent of all the properties in the state that are at high or moderate risk of flooding. Even with the private sector growth and the number of policies in the NFIP, only about 25 percent of the properties that have a significant chance of flooding have this needed coverage.

With regard to using a state mandated “standardized disclosure form” to inform consumers that their policy does not include protection from flood loss, we note that in states where mandated disclosures are required such requirements do not guarantee results and would likely stifle innovation as insurers develop methods of disclosure that provide them with specific results based on their marketing approaches and customer base. Again, for example, in California, there is a mandatory every other year offer of earthquake insurance on a state-prescribed form and the “take-up” rate for that coverage has

been hovering around the 11 percent mark for more than two decades despite efforts by the California Earthquake Authority to entice the purchase of this important protection as well.

SB 442 which passed in 2019 requires the following standardized flood disclosure form:

"Flood Insurance: You may also need to consider the purchase of flood insurance. Your insurance policy does not include coverage for damage resulting from a flood even if hurricane winds and rain caused the flood to occur. Without separate flood insurance coverage, you may have uncovered losses caused by a flood. Please discuss the need to purchase separate flood insurance coverage with your insurance agent or insurance company, or visit www.floodsmart.gov." (d)AAThe statement described by Subsection (c) must be conspicuous, as defined by Section 1.201, Business & Commerce Code. (e)AAAn insurer's failure to comply with this section does not invalidate any exclusion, including a flood exclusion, in an insurance policy subject to this section.

Insurers need the flexibility and support of the Texas Legislature and Department of Insurance to allow individual companies to try and determine the specific marketing approaches and disclosure methods that will encourage the purchase of flood insurance, be it through the National Flood Insurance Program or privately. Changing the recently adopted mandatory flood disclosure is unlikely to have any effect on consumer behavior.

Sincerely,

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ⁱ Source: NFIP Statistics by State by Month - 2015 was the first year that private flood insurance was included as part of the annual statement

ⁱⁱ Source: S&P Global Market Intelligence, 2015 through 2019 Annual Statement (FM Global writes private flood only for commercial property and they reclassified private flood as part of allied lines in 2019, and it is therefore exclude to analyze industry private flood growth over time.)

ⁱⁱⁱ Source: December 2017, CoreLogic Analysis Shows More Than 20 Percent of US Properties at Risk of Flood Are Outside of Designated Special Flood Hazard Areas